

TEACHERS' RETIRMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Real Estate - RFP for Independent Fiduciary

ITEM NUMBER: 8

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: November 3, 1999

INFORMATION: _____

PRESENTER(S): Mr. Mitchell

BACKGROUND

One of the strategies outlined in the annual real estate business plan, presented and approved by the Investment Committee in May 1999, is to invest in the moderate and high-risk components of the overall real estate portfolio through commingled funds. As part of the procedures in evaluating commingled funds, an independent fiduciary must perform a due diligence evaluate on any prospective commingled fund. The proposed RFP will provide staff with a pool of qualified independent fiduciaries to evaluate commingled funds. The structure of this RFP will incorporate the processes followed in recent RFPs (active domestic and international equities). These include open ended contracts (evergreen), establishment of a "pool" of managers and delegation of selections to staff. Attachment 1 provides detailed information for the RFP that includes:

- ⇒ Time line for the RFP
- ⇒ Introduction
- ⇒ Purpose of the RFP
- ⇒ Services to be Provided
- ⇒ Minimum Qualifications
- ⇒ Fee Structure
- ⇒ Proposal Evaluation Criteria

Staff is proposing that the contract participation goal requirement for Disabled Veterans Business Enterprise be waived and in the absence of contract participation goal requirements, staff is proposing to include the following language in the RFP:

The Teachers' Retirement Board has adopted a policy that directs staff to encourage, prompt, and facilitate the fullest participation by disabled veteran business enterprises in contracts awarded by CalSTRS. In accordance with this policy, CalSTRS encourages its contractors to seek opportunities, whenever possible, to do business with disabled veteran owned firms.

RECOMMENDATION

In concert with the previous RFPs staff recommends that the Investment Committee approve the following:

1. Release of the Request for Proposal as described in Attachment 1;
2. Use of an “Independent Fiduciary Pool” for due diligence analysis;
3. Waiver of disabled veteran contract participation goal requirements;
4. Use of open ended contracts (Evergreen contracts), and ;
5. Delegation of the “Final Selection” to staff and PCA with periodic updates to the Investment Committee.

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
INDEPENDENT FIDUCIARY FOR REAL ESTATE

TIME SCHEDULE:

Date of Issue:	<u>November 1999</u>
Final Filing Date:	<u>November 1999</u>
Prequalification Evaluation:	<u>November 1999</u>
Written Proposal Evaluation:	<u>December 1999</u>
Finalist Interviews:	<u>December 1999</u>
Reference Checks:	<u>December 1999</u>
Post Notice of Intent to Award:	<u>Immediately After Selection</u>
Award of Contract: <u>notice of intent to award</u>	5 business days after posting

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
REQUEST FOR PROPOSAL

REAL ESTATE – INDEPENDENT FIDUCIARY

I. INTRODUCTION

The California State Teachers' Retirement System (CalSTRS) administers an investment portfolio with approximately \$100 billion in total assets. As of June 30, 1999, the assets were invested as follows: \$45.9 billion in domestic equities; \$23.7 billion in international equities, \$24.9 billion in domestic fixed income securities; \$2.2 billion in real estate equity; \$2.6 billion in alternative investments and \$0.7 billion in cash reserves. The Investment Management Plan adopted by the Teachers' Retirement Board (Board) provides an investment structure designed to provide diversification within each component of the portfolio. The real estate portfolio contains direct and indirect investments (commingled funds). CalSTRS is in the process of soliciting proposals from firms acting as an independent fiduciary to provide due diligence services in the evaluation of commingled funds or other real estate related projects.

CalSTRS intends to award contracts to a maximum of six (6) qualified firms that have experience in evaluating and performing due diligence on commingled funds and other real estate related projects. CalSTRS reserves the right to determine the number of contracts that will be awarded. In the event that none of the proposals are satisfactory, then no selection will be made. Upon award of a contract(s), CalSTRS shall develop objectives for each manager.

II. PURPOSE

Pursuant to Education Code 22353 and Article XVI, Section 17 of the California Constitution, CalSTRS is seeking qualified firm(s) to provide evaluation and due diligence services for commingled funds and other real estate related projects. The firms selected will be fiduciaries of CalSTRS. This request for proposal will be used to develop a pool of independent fiduciaries.

III. SERVICES TO BE PROVIDED

Under the direction of the Board or designee and in accordance with CalSTRS' Investment Resolution, Exhibit 1, and Fiduciary Standards, Exhibit 5, the services to be provided by the firm shall include, but not be limited to, the following (the subject review may be tailored as circumstances dictate):

- A. The independent fiduciary shall review all written materials provided by the General Partner of the commingled fund or the assigned special project. This review shall be limited to the following activities:
 - 1. Review the principal terms of the commingled fund or transaction; financial, accounting and tax risks; operational risks including management and integration issues; and industry and market risks.
 - 2. Interviews with the General Partner or transaction team, targeting the following:
 - a. the terms and target strategy of the transaction or commingled fund,
 - b. the General Partner's organization
 - c. the nature and extent of the General Partner's due diligence process,
 - d. the experience and track record of the General Partner in the stated strategy
- B. Upon completion of the review of a transaction the independent fiduciary shall render to CalSTRS a written recommendation stating:
 - 1. whether the price/structure of the transaction is fair and reasonable in light of comparable transactions in the market, or
 - 2. whether the commingled fund's operational capability and performance is consistent with industry standards and CalSTRS strategy.
- C. The written recommendation shall include:
 - 1. a discussion of the independent fiduciary's due diligence activities to learn about the General Partner's organization, strategy and performance,
 - 2. comments on both the potential benefits and potential risks of the contemplated investment or commingled fund,
 - 3. a discussion of the evaluation process conducted by the independent fiduciary.
- D. The independent fiduciary shall maintain the ability to sub-contract with legal counsel acceptable to CalSTRS with expertise in commingled funds or specific transactions. Such counsel must be available to assist in negotiations with issuers.

IV. FEES

Actual fees shall be determined at the time of the assignment of the project with the concurrence of CalSTRS and the Independent Fiduciary.

V. MINIMUM QUALIFICATIONS

The proposer must meet all of the following minimum qualifications to be given further consideration. Failure to satisfy each of the minimum qualifications may result in the immediate rejection of the Proposal.

- A. As of June 30, 1999, the firm must have at least one (1) year experience in the evaluation and due diligence of commingled funds or specific real estate transaction analysis.
- B. The primary individual reviewing CalSTRS' commingled funds or special real estate projects must have at least five (5) years experience in commingled fund evaluation and specific real estate transaction analysis.

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
REQUEST FOR PROPOSAL

REAL ESTATE - INDEPENDENT FIDUCIARY

WRITTEN PROPOSAL EVALUATION SHEET

Name of Proposer

	MAXIMUM POINT <u>SCORE</u>	PROPOSER'S POINT <u>SCORE</u>
A. PROPOSAL QUESTIONNAIRE		
Section I – Organizational Background	20	
Section II – Litigation	20	
Section III – Range of Services	80	
Section IV – Due Diligence Process	50	
Section V – Professional Staff	80	
Section VI – Reporting	10	
Section VII – Special Projects	120	
Section VIII – Client Conflict and References	20	
Total Item A*		400
B. Finalist Interview	100	
GRAND TOTAL	500	

* A proposer must receive a minimum score of at least 280 (70%) points in Item A of the Proposal Questionnaire to be given further consideration.

Rater No. _____

Date _____